

December 26, 2022

Punjab Genco Limited: Issuer Rating of [ICRA]BBB- (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	[ICRA]BBB- (Stable) assigned
Total	-	

*Instrument details are provided in Annexure-I

Rationale

The assigned rating for Punjab Genco Limited (PGL) factors in the strategic importance of the entity for Government of Punjab (GoP) in implementation of the New and Renewable Sources of Energy Policy-2012 (NRSE-2012), must run status for renewable energy projects providing support to generation, assured raw material availability for the bio-methanation project of PGL and healthy credit profile given nil debt along with large un-encumbered cash balances. PGL and Punjab Energy Development Agency (PEDA, PGL's parent and a state nodal agency) are key vehicles for GoP to implement the NRSE-2012 policy and implementation of renewable energy projects in the state and thus are strategically important for the GoP. The dependence of PGL on GoP however remains limited given there is no payments for subsidy or any other form of support from the government required by PGL. However, given that the administrative control of PGL's parent i.e. PEDA is in the hands of GoP, the credit profile of PGL will remain supported/ linked to credit profile of GoP.

PGL's generation assets include 9.8MW of mini-hydel projects (MHP) located along two irrigation canals of Bhatinda and Abohar in the state of Punjab. The other assets include 0.25 MW of solar power project and a 1.0MW of rapid bio-methanation project which is currently focusing on production of bio-CNG. Given the entire portfolio is renewable energy asset based, the power generation for PGL will be supported by the must run status for these projects. The MHPs have a Power Purchase Agreement (PPA) with Punjab State Power Corporation Limited (PSPCL) which is due for renewal in October 2023. ICRA expects the PPA to be renewed in a timely manner given the competitive tariff offered by the project. The company has a 1.0 MW rapid bio-methanation project wherein the company is currently focusing on producing bio-CNG and reduced the power production to around 0.4 MW. Given that the project is located near a large dairy complex in Haibowal, Punjab where the daily cow dung generation exceeds the requirement of the plant. As a result, the generation of power as well as bio-CNG through raw biogas is expected to remain healthy. The credit profile of PGL is healthy given no debt on the books of the company along with large, unencumbered cash balances and no significant capex plans going forward. Given that the company has not invested significantly on building assets over the last twenty years and there was no debt to be serviced, the cash balances have accumulated over the years resulting in large non-operating income in the form of interest on the fixed deposits supporting credit profile further.

The ratings are constrained by the small scale of operations of the ageing portfolio along with no major growth plans in works, low asset diversification and modest counterparty credit risk profile i.e. PSPCL which constrains PGL's credit rating. The company has a small asset base with significant reliance on the MHPs for revenue. The assets were commissioned nearly two decades back and while they have gone under major refurbishment recently, the risk of ageing effect may impact the production and hence cash generation going forward. The company does not have any expansion plans in place as well so the scale of operations are expected to remain at the current levels in the near to medium term. . The MHP assets are also located on two adjacent irrigation canals and thus the generation will remain exposed to water requirement downstream. PGL's hydro

assets have a PPA with PSPCL which expires in October 2023. The initial PPA had a tenor of 20 years and was extended by five years. The PPA has a high likelihood of renewal given the current tariff remains inline with the average power purchase cost (APPC) for PSPCL. While the payments from PSPCL have been received with a moderate delay, the same going forward will remain a key monitorable.

ICRA expects the cash generation from operations for PGL to improve going forward as the repair and maintenance of the hydro projects has been completed and the plants are expected to achieve healthy power generation from FY2024. With no major capex plans and large unencumbered cash balances, the credit profile is expected to remain stable.

Key rating drivers and their description

Credit strengths

Strategic importance for Government of Punjab for implementation of the New and Renewable Sources of Energy Policy-2012 (NRSE-2012)- PGL and PEDDA hold strategic importance for Government of Punjab as these are the key vehicles for GoP to implement the NRSE policy-2012 in the state of Punjab. The strategic importance is reflected by the administrative control exercised by the GoP by appointing officials from different government department on the board of PEDDA and PGL.

Must run status for renewable energy plants provides support in terms of energy generation - PGL's portfolio includes Mini-Hydel projects (9.8 MW), High-Rate Bio-Methanation Project (1.0 MW) and Solar Power plant (0.25MW). All the assets generate renewable energy and thus are covered under the must run status and are excluded from the merit order approach. Thus, the power generation for the company is expected to remain stable subject to plant and grid availability. The Power Purchase Agreement (PPA) signed with PSPCL also provides visibility for cash flows in the near to medium term.

Assured raw material availability for methanation project ensuring healthy Plant Load Factor (PLF)- PGL's has a 1.0 MW bio-methanation project located at Haibowal Complex, Ludhiana. The plant is located near a dairy complex which has an output of around 250-300 MTPD of cattle dung which is the key input for the plant. Since, the cattle dung is a waste for the dairy complex the supply to PGL ensures that the dairies don't have to incur any expense on dung disposal to meet the environmental norms. As a result, raw material availability has remained stable, and the project has been able to undertake generation of biogas at a steady pace. The same is expected to continue going forward as well.

Large, unencumbered cash balance and debt free balance sheet lend strength to credit profile- PGL's power generation had started rising from FY2006 and remained at healthy levels during the period of FY2008 to FY2014. Since the company did not have any significant cash outflow on account of capex, debt repayment (debt free entity) or significant dividends, the company cash balances kept rising. As on March 31, 2022, the company had ~Rs. 91 crores of unencumbered cash and bank balances. The company has no debt on its books and does not have any major capex plans going forward. Thus, the financial risk profile of the entity is expected to remain stable going forward.

Credit challenges

Small scale of operations with ageing portfolio of power assets and no major growth plans going forward- PGL's asset portfolio was transferred to it from its parent Punjab Energy Development Agency (PEDDA) in the year FY2004. Since the year 2004 no further additions to the portfolio has been made and the company is now engaged in providing consulting and assistance to private investors for setting up of new and renewable energy source based power plants in the state of Punjab. Given the significant ageing of the portfolio, the power production from the portfolio began to witness headwinds from FY2015 onwards. The company carried out extensive repair and maintenance of its hydel plant portfolio during the course of FY2018 to FY2022 and the performance is expected to remain stable going forward. However, the overall portfolio size remains small with total generation capacity of 11.05 MW. Thus, the scale of operations of the company are expected to remain small given no expansion plans in place. Additionally, the ageing of the portfolio will continue to remain a key headwind for ramping up of generation going forward.

Low geographical diversification of assets exposes company to resource availability risk particularly in the hydro segment- PGL's hydro assets are canal based mini-hydel projects located on Abohar and Bhatinda canal which are located nearby. The water flow in the canal remains exposed to the demand downstream for irrigation and thus the resource availability remains a key risk.

Power Purchase agreement (PPA) with a counterparty with subdued credit profile exposes company to counterparty risk- PGL's hydro assets have a PPA with PSPCL which expires in October 2023. The initial PPA had a tenor of 20 years and was extended by five years. The PPA has a high likelihood of renewal given the current tariff remains inline with the average power purchase cost (APPC) for PSPCL. While the payments from PSPCL have been received with a moderate delay, the same going forward will remain a key monitorable.

Liquidity position: Adequate

ICRA expects PGL's liquidity position to remain adequate in the near to medium term. While PGL's cash generation from core operations is expected to remain subdued, large un-encumbered cash balances, no major capex plans and nil debt repayment is expected to aid liquidity position.

Rating sensitivities

Positive factors – The rating upgrade for the company will be linked to the improvement in the credit profile of Government of Punjab (GoP) could lead to a rating upgrade.

Negative factors – Weakening of the credit profile of Government of Punjab (GoP) may lead to a rating downgrade. Any significant delay in the payment by PSPCL i.e. the counterparty for hydro projects leading to deterioration in the working capital cycle and thus credit profile of PGL will be a trigger for rating downgrade. Material capex being undertaken by the company leading to deterioration of the liquidity and credit profile of the company.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach-Implicit support from Parent or Group
Parent/Group support	ICRA has factored in the implicit support from Government of Punjab (GoP) given that PGCL's parent PEDDA is under administrative control of GoP and PEDDA/PGL are important vehicles for implementation of the NRSE-2012 policy in the state of Punjab.
Consolidation/Standalone	ICRA has considered standalone financials of Punjab Genco Limited

About the company

Punjab Genco Limited (PGL is a wholly owned subsidiary of Punjab Energy Development Agency, a nodal agency for Government of Punjab) was incorporated in March 1998 to meet with the statutory requirements of Electricity Supply Act, 2003 for power generation. The main objective of the company is to identify the projects based on new and renewable energy fuels, prepare techno - economic feasibility reports, identify and select suitable investors for implementation of such projects in joint/assisted sector or on Build, Operate and Own (BOO) basis or at its own including supervision and execution of such schemes. The company has a portfolio of 1MW of high-rate bio-methanation plant, 9.8 MW of mini-hydel plants (MHPs) and two solar PV plants of 0.25 MW capacity. All the assets are based in the state of Punjab.

Key financial indicators:

PGL Standalone	FY2021	FY2022 (Prov)
Operating income	8.4	6.7
PAT	1.7	0.1
OPBDIT/OI	12.8%	0.8%
PAT/OI	20.6%	1.8%
Total outside liabilities/Tangible net worth (times)	0.0	0.3
Total debt/OPBDIT (times)	-	-
Interest coverage (times)	6,385.4	301.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated	Amount outstanding as of Sep 30, 2022	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
		(Rs. crore)	(Rs. crore)	26-Dec-2022	-	-	-
1 Issuer Rating	Long term	-	-	[ICRA]BBB- (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer Rating	NA	NA	NA	NA	[ICRA]BBB- (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis-NA

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